



**Provisioning Policy**  
**for**  
**Non-Performing Debt Securities**  
**of the Collective Investment Schemes**

## **Provisioning Policy for Non-Performing Debt Securities of the Collective Investment Schemes**

### **1. INTRODUCTION**

- 1.1** The Securities and Exchange Commission of Pakistan (SECP), vide its Circular No. 13 of 2009, required Asset Management Companies (AMCs) to formulate Provisioning Policy for non-performing debt securities of Collective Investment Schemes (CIS) under their management. Such Policy is required to be approved by the Board of Directors (BOD) of the AMC and disclose it to the Investors, the Trustee of the CIS, the Commission and is also required to be displayed on the AMC's web-site.
- 1.2** The provisioning policy of JSIL was approved by the BOD in the meeting held on August 21, 2009 in accordance with the valuation methodology and provisioning criteria defined in Annexure I and II of Circular No 01 of 2009. The said policy was contemplated to integrate the amendments issued by the SECP vide Circular No 33 of 2012 dated October 24, 2012. After incorporating necessary amendments, the revised provisioning policy was presented to the BOD, which was approved in the meeting held on April 24, 2013.

### **2. AREAS COVERED UNDER THE PROVISIONING POLICY**

#### **2.1 Eligibility criteria for debt security and other exposure for making provision:**

- 2.1.1** For the purpose of this Policy a “**debt security**” means any security issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes term finance certificates, bonds, debentures, Sukuks, commercial papers, certificate of investment (COI), certificates of deposits (COD) certificate of Musharika (COM), letters of placements (LOP) and includes Pre-IPO Investments in any of the above financial instruments.
- 2.1.2** The requirements for provisioning of debt securities and other exposure, held by CIS, were issued in consideration of more focused on the credit analysis of the issuer of these instruments instead of evaluating other risk parameters associated with such fixed income securities such as credit spread widening, market liquidity and tenor to maturity.

#### **2.2 Criteria for classification as non-performing exposures**

- 2.2.1** A debt security shall be classified as non-performing, if the interest and / or principal amount is past or overdue by 15 calendar days from the due date. After the expiry of 15 calendar days from the due date, JSIL shall immediately make provision for all such non-performing assets of a CIS under its management.

### **2.3 Provisioning requirements including the minimum time frame for maintaining the applied provisions**

2.3.1 All non-performing exposures whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

<b>Effective Day for Provisioning</b>	<b>Minimum Provision as % of Book Value (Outstanding Principal Amount)</b>	<b>Cumulative Provision</b>
90th day	20%	20%
180th day	10%	30%
270th day	10%	40%
365th day	10%	50%
455th day	10%	60%
545th day	10%	70%
635th day	10%	80%
725th day	10%	90%
815th day	10%	100%

2.3.2 As per Circular 33 of 2012, an AMC may exercise its discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non performing or spreading it over the number of days, as deemed appropriate in the best interest of unit holder, subject to the approval of BOD and disclosure in quarterly, half yearly and annual accounts. However, the minimum criteria on effective day of provisioning shall be in accordance with the schedule given above.

2.3.3 Where an exposure immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and Debt Security shall be carried at the existing value upon classification as non-performing.

2.3.4 In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performing Exposure shall also be fully provided.

### **2.4 Criteria for suspension of mark-up**

2.4.1 The collective investment scheme shall immediately suspend further accrual of mark-up / profit on a debt security from the day it is classified as non-performing exposure. Full provision shall be made against mark-up / profit accrued but not received up to the date of classification of debt security as non-performing exposure on the date of such classification.

2.4.2 In case a CIS has received all arrears of interest and the debt security has not been reclassified as performing, the suspension of interest/ markup shall continue.

## **2.5 Criteria for reversal of provisioning / Reclassification of non-performing debt securities**

2.5.1 Debt security shall be reclassified as performing only after receiving all the arrears and is regular on payment (interest/ principle) for next two installments.

2.5.2 For RESTRUCTED/ RESCHEDULED securities, it can only be reclassified as performing if:

- i) Terms & condition of rescheduled/ restructured agreement are met for at least one year
- ii) All arrears (backlog) up to the restructuring/ rescheduling date shall be received in cash.
- iii) As per old agreement (before restructured/ rescheduled agreement) first two installments should be received in cash.

2.5.3 If any of the above conditioned are not fulfilled debt security can NOT be reclassified as performing.

2.5.4 SECP has also clarified that reversal of interest/ principal shall be written back to income to the extent it is received in cash.

## **2.6 Requirements for disclosure of the provisioning policy**

2.6.1 The Policy shall be disseminated to the investors on the website of JSIL and if required via a letter to each unit holder. A copy of the Policy shall be provided to the Trustee of the CIS and the Commission for their information and record. Moreover, in the quarterly, half yearly, annual accounts and monthly Fund Managers Report it shall be disclosed that "provisioning criteria of any debt security is in accordance with the BOD approved Provisioning policy, which is uploaded on JSIL website".